TRANSCRIPT

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Investor Conference Call
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Investor Conference Call on

FY24 Fourth Quarter Financial Results

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Presentation

Kristen Fang *Hon Hai Technology Group – IR Manager*

Hello to all the investors and media. This is Kristen. Welcome to Hon Hai's Fourth Quarter 2024 Investor Conference Call. Joining us today, are Chairman Young Liu, CFO David Huang and Spokesperson James Wu. The conference call is scheduled for one hour, starting with our presentation, followed by a Q&A session.

As usual, before we begin, please carefully read the safe harbor notice on the next page before we start the meeting.

We will now proceed to the first session, the presentation, which will cover four topics, including performance review of the fourth quarter of 2024 and full year 2024, business outlook for the first quarter of 2025 as well as full year 2025, new business developments and recent major events.

I will now hand over the floor to our CFO David to begin the presentation on company financials for 2024.

David Huang *Hon Hai Technology Group – CFO*

Thank you, Kristen. Hello everyone. I am David Huang, CFO of Hon Hai Technology Group. I am going to start with some highlights on Hon Hai's financial results for the fourth quarter of 2024.

Firstly, please refer to page 5 of the presentation for the 2024 income statement.

The revenue for 2024 was NT$6.86 trillion, operating profit was NT$200.6 billion, after-tax net profit was NT$152.7 billion, reaching a historical high. EPS was NT$11.01, the highest since 2008 and the fourth year that our annual profits have reached over the value of one share capital.

In terms of margins, gross margin for 2024 was 6.25%, a decrease of 0.04 percentage point (pp) YoY, mainly due to an increase in server product sales. Operating margin was 2.92%, a YoY increase of 0.22 pp, mainly due to decreased cost margins. Revenue grew by 11%, while costs only increased by 3%. Net profit margin was 2.23%, a YoY decrease of 0.08 pp, mainly due to a decrease in non-operating profit.

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Next, please refer to page 6 of the presentation for the 4Q24 income statement

The revenue for 4Q24 was NT$2.13 trillion, an increase of 15% YoY and representing a new high for the same period in previous years.

In terms of margins, gross margin was 6.15%, a YoY increase of 0.03 pp, mainly due to revenue growth and an improved product mix, leading to a better-than-last-year gross margin performance. Operating margin was 3.03%, a YoY increase of 0.38pp, due to an increase in gross margin along with a decrease in expense ratio. Revenue increased by 15% while costs only increased by 3%. 4Q24 net margin was 2.17%, a YoY decrease of 0.7 pp, mainly due to a decrease in non-operating profit. Of note, this year, there was no one-time benefit from asset revitalization unlike during the same period last year. The decrease is also due to loss recognition of equity method and FX impacts.

EPS for 4Q24 was NT$3.34, a decrease of NT$0.49 YoY.

Next, look at page 7 for the balance sheet. In 2024, at the end of December, the cash and cash equivalents were at NT$937.1 billion, net cash was NT$380.8 billion, a decrease of NT$44.1 billion compared to the previous year, mainly due to increase in working capital needs and capex driven by revenue growth.

Cash turnover days was 38 days, flat YoY. Debt ratio was 58%, also similar when compared YoY.

Finally, looking at the cashflow statement on page 8, cash inflow from operating activities in 2024 was NT$166 billion, a decrease of NT$279.6 billion compared to the previous year, mainly due to inventory changes. The main reason for inventory changes was due to increased inventory levels in 2022 due to the pandemic which were then readjusted back to regular levels in 2023, contributing NT$201.7 billion to cash inflow. In 2024, in response to revenue growth, inventory increased slightly from 2023 and cash outflow was NT$76 billion.

Free cashflow was positive by a margin of NT$29.7 billion, representing a decrease of NT$304.1 billion, mainly due to a decrease in cashflow from operating activities of NT$279.5 billion and an increase in capex of NT$24.6 billion.

Here I conclude the summary of the financial statements for 2024. Now, I would like to turn the call over to Chairman Liu.

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Young Liu *Hon Hai Technology Group – Chairman*
Thank you, David. Good afternoon, everyone. This is Young Liu. This is our first investors' conference this year. This is a good chance for me to share Foxconn's outlook for this year.

Operating results from the fourth quarter of this year have just been addressed. In summary, both QoQ and YoY saw strong growth, better than we forecasted. Specifically, Computing, and Component and Other product segments both performed better than expected.

However, on Cloud and Networking products, due to a higher base from earlier inventory pulling in the third quarter combined with a product refresh cycle in the fourth quarter, performance saw a slight decline. March each year is the month we typically provide our first outlook for the year. Going forward, we will continue to give updates and adjustments based on Foxconn's outlook based on combining the market and customers' latest conditions. We will attempt to give our best rolling forecast.

Last year, during our March investors' conference, we forecast significant growth for 2024. Even though our stance remained the same for the November investors' conference, our internal estimated figures have increased from low single digit growth to high single digit growth. Overall, 2024 performance was even better than we expected in November by the end of the year, with a total revenue of NT$6.86 trillion for 2024, a historical record. Our Cloud and Networking, Components and Other products all saw strong growth.

On profitability, not only did we reach historical highs for operating and after-tax net margins, our EPS also reached NT$11.01, a 17-year high. These are the results of the hard work from the Foxconn team in 2024.

On the product mix, due to AI Server strength, Cloud and Networking products saw a significant increase in the product mix. In 2023, this segment was only 22%, but reached 30% in 2024. We forecast that this year, Cloud and Networking products will get close to Smart Consumer Electronics in the product mix. This will soon become the largest product segment at Foxconn group.

Next, I will address the company's outlook for 2025. Last year, in November, we mentioned that we were optimistic about 2025. Even though we have seen US tariffs, geopolitical risk, and global monetary changes in the past few months, we still expect strong growth for this year.

First, on Smart Consumer Electronics, from current visibility, we expect demand to be stable this year. Hence, we believe this will be largely flat YoY.

For Cloud and Networking products, we continue to feel strong customer demand for AI Servers as well as large increases in product ASP, both contributing to strong growth for the AI Server segment. Apart from AI, customer demand for data processing and storage requirements is increasing. Therefore, regular servers are also expected to see significant growth. For Networking products, through demand is recovering, we expect the segment to return to its growth trajectory. For Cloud and Networking products, this year, we expect strong growth performance.

For Computing products, due to refreshing multiple production lines in 2024 causing a higher base for comparison, we expect a slight decline for this segment in 2025.

Lastly, for Components and Other products, we continue to expand our ICT component supply, combined with continued growth in EVs. We forecast strong growth in this segment.

Next, I will address our outlook for 1Q25. Overall, for 1Q25 outlook, even though the first quarter is traditionally our light season, we forecast this 1Q seasonality to be the better than the average of the past five years, expecting strong growth YoY.

From our four major product segments, we expect significant growth for Smart Consumer Electronics in the first quarter due to new product. Moreover, on Cloud and Networking, we expect significant growth to be driven by ramping of GB200 and higher ASP for GB200. Year on year, we are also expecting strong growth.

For Computing products, we expect strong YoY growth in 1Q25 thanks to new product launches. For Components and Other products, driven by key components and automotive components, we also expect strong YoY growth for 1Q25.

Next, I would like to address new business developments for Foxconn. Foxconn's current positioning is as a technology manufacturing platform service provider. Therefore, our three major smart platforms, including Smart Manufacturing, Smart EV and Smart City, are the three pillars where we develop our key competencies. The three major platforms – Smart Manufacturing, Smart EV, Smart City – are the important foundation for developing various technologies and businesses. These platforms are based on key components, modules, systems, software and other fundamental capabilities we have soundly established. In the future, Foxconn will introduce more generative AI to make them even more powerful.

We will work with global Tier-1 partners to jointly develop and create generative AI solutions or develop large language models in-house to introduce into our three major intelligent platforms. By doing this, it will improve overall operational efficiency, and also enhance competitive advantage. For example, we are currently producing AI with AI. In Japan, we have already started to implement a fully automated smart phone assembly line. This is a great example of our AI transformation.

Next, I will discuss each product line.

First, on ICT. This is a key part of our product mix, bringing stable cashflow to the company each year. This year, we forecast consumer electronics and computing products to be stable. However, due to the tariffs and more market uncertainty on the production side, we expect to face increased challenges this year. The demand side may also see similar impacts. In response to these changes, we will continue to maintain close contact with our customers and leverage our global presence to make timely adjustments. Long-term, the normalization of Edge AI applications implies higher demand for personal device upgrades. Next, I will discuss AI servers. In 2024, large CSP and Tier 1 brand customer have both increased demand for AI Servers. This has driven AI server sales to grow by over 150% YoY. Combined with a return of demand for general servers, overall server revenue has reached 78% growth YoY.

As we mentioned during our previous investors' conference, 2025 is the year of AI. Global demand for AI computing infrastructure will continue to increase. Main CSP players are also maintaining strong capex growth for 2025. For 1Q25, we expect AI Server revenue to see over 100% growth both YoY and QoQ. Along with the rise of GB200 and the next generation of products entering mass production, we believe AI Server revenue will increase each quarter.

Looking at the full year, we expect AI server revenue to reach the NT$1 trillion scale, reaching over 50% product mix in our server segment. We have always been an important co-development partner in new products with major customers. Hence, we can ensure that we will be involved in the development of the next generation upon next generation of product development.

The AI server industry involves very high barriers of entry. The AI server players place emphasis on the ability of EMS players to do R&D, vertical integration, high levels of automation, and global deployment. Customers are interested due to the increasing complexity in AI server design, leading to production cost increases. At the same time, they are also interested in the ability for global deployment and vertical integration. Foxconn has strong advantages on both of these sides, allowing us to hold a key position on both the supply and demand. AI servers are different from ICT products, with product stability being of key importance. As training AI servers requires a long period of time, any malfunctions in AI servers during training would involve a reset of the AI servers, which would greatly impact training times. Foxconn has always been a leader in the industry in terms of product quality stability. Hence, currently, gaining 40% market share is a conservative goal, and we are confident in gaining more than that. Next week, at GTC, we will reveal our latest AI solutions and we welcome everyone to come have a look.

On our EV business, we continue to develop our Model C product line. At the same time, we also expect to continue to work toward our goal of localized production of electric buses. We have also been adopted widely by customers for automotive electronics, including for ADAS and IVI etc. We have shipped more than 1 million units. Everyone has also been very interested in our collaboration with Japan automakers. We expect contract signing to be completed in one to two months' time.

In 2H25, we expect the North American variant of the MODEL C as well as the MODEL B to enter mass production. Our electric bus plant will also expand its shipment volumes after completing certification in the third quarter.

On batteries, our He Fa Battery plant, after certification, has started mass production in 1Q25. We will also supply battery packs in line with demand from domestic customers looking to localize production of these products.

On the software side, we continue to work with the Middle East automotive player to design and develop battery architecture to develop smart cabin products. Additionally, we will continue to research & develop EV software ecosystem platforms and utilize AI agents to build a software-defined vehicle ecosystem.

Next, on smart manufacturing, our Genesis platform collaboration with BCG has seen some results for AI manufacturing, including smart parameter adjustments based on GenAI, which has contributed to 30-50% increase in productivity.

On AI Robot applications, we continue to develop hybrid robots and humanoid robots for advanced manufacturing applications. At the same time, we continue to standardize and virtualize our factories, speeding up the use of robots at our manufacturing sites.

Lastly, we used Omniverse to construct a digital factory for server production and electric bus assembly. We will also showcase GB200 updates after production line integration at GTC.

Next, on recent developments of Smart City, we have signed an MOU with the state of Sonora in Mexico to establish a collaboration in Smart City and safety. On CityGPT, we also continue to expand our strategic partners, including local governments for Smart City development plans and MaaS application services.

In the future, we will continue to drive both domestic and international, including with countries such as Mexico and Japan to deeply explore the demands of different cities and their residents, businesses, and governments.

Beyond that, Foxconn will also be leveraging its position as a large company assisting smaller peers to drive the development of Taiwan's software industry to develop relevant service applications for software.

Next is semiconductors and their continued development in AI Servers. Power, power IC, and power efficiency cost advantages have continued to appear in our latest AI Server products. At the same time, we have started to provide 5nm advanced manufacturing services to our customers. SiC, iGBT modules have also received certifications for commercial vehicle, electric bus, and optical applications and have undergone trial production. Overall, Foxconn’s semiconductor business continues to move in the right direction of our company’s plans.

On Low Earth Orbit satellite (LEO), we are positive on the growth of this segment in the coming 5 to 10 years. We continue to expand our customer base and eagerly participate in sovereign communication satellite system developments. Through our BOL strategy and our global supply chain competitive advantage, we continue to strengthen our 6G strategy.

Going forward, we will be bringing our cumulative advantages in the ICT and EV segments to the new space supply chain. Our goal is to become the main leader for 6G sovereign LEO satellite CDMS by 2030.

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Next, I will ask James to share our recent major events. Thank you.

James Wu *Hon Hai Technology Group – Spokesperson*
Thank you. I will share some important updates with everyone.

First, at the Taiwan International Assembly of Space Science, Technology, and Industry (TASTI 2024), we shared our latest operational technology of our PEARL satellite for the first time. At the same time, we showcased the latest developments in our LEO satellite receiver that we developed in collaboration with FIH and SHARP.

Next, FIH also attended CES in the US for the first time, showcasing a series of automotive electronic solutions.

Apart from that, we have also eagerly demonstrated groundbreaking technological developments with our partners. For example, on smart manufacturing, we have showcased our next generation AI factory using the Omniverse platform with NVIDIA to redefine the future of manufacturing.

Regarding AR glasses, following our achievement of a new industry brightness record in uLED, we have also joined hands with Porotech to further commercialize our research and development results.

Also, in order to drive green technologies, we are strategically working with Zettabyte to promote innovative transformation of AI data centers.

Next, we will talk about Hon Hai Research Institute updates. This week, Hon Hai Research Institute launched the first version of its Large Language Model with reasoning ability in Traditional Chinese, FoxBrain. The model was trained using NVIDIA H100 GPUs. On top of that, training only took around four weeks to complete. With lower costs and higher efficiency, we have plans to integrate it with AI Large Language Models to strengthen the ability of our three platforms to analyze data.

We have also worked with National Yang Ming Chiao Tung University to reach breakthroughs in spatial computing, receiving the Future Technology Award for these endeavours. Our own research and development achievements were also published by top-tier quantum computing conferences and internationally renowned journals.

On awards won, we have received a National Invention and Creation Award in the Digital Health segment. In the 'Top 100 Companies in Carbon Competitiveness' awards, we also achieved the top position in the “Other electronics industry” sector. Additionally, we were recognized in the Clarivate Top 100 Innovators for the eighth consecutive year. This has continued to encourage us to work on research and development in search for innovation.

Moreover, in the beginning of this month, we hosted and successfully completed our second Foxconn TLPGA Players Championship golf tournament. Through hosting this global level competition, we received a Sports Promoter Award.

For IR Magazine prizes, we have received prizes in three categories.

We have also received recognition in our global ESG efforts. In China, our Zhengzhou campus successfully completed AWS Platinum-level Certification for Sustainable Water Management. This is the Group’s first campus to reach Platinum-level certification as well as the first group level in China to reach this certification level.

Furthermore, I will share our employee’s ESG efforts at our various global campuses to take care of each other and give back to society. Within the Group, we have just kick off our second annual Hon Hai Foxconn Sustainability Awards. This year, we received over 1,000 entries globally. This is 3x more than last year, demonstrating our employees’ eagerness to drive ESG efforts.

The above are our latest important updates. Thank you.

Questions and Answers

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Thank you. James. Next, we will move to the Q&A session. We'll go through questions that were raised in advance of today's call and answer those first. After that, we will open the floor to any questions.

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Question 1: First, from the presentation, we saw AI Server will reach 50% of server revenue. I would like to ask Chairman Liu to elaborate on Hon Hai's stance on the supply and demand for AI Servers for this year.

Young Liu *Hon Hai Technology Group – Chairman*
I believe that going forward, AI developments are flourishing. This is mainly due to CSP and Tier 1 brand customers' demands for GB racks, especially for cloud and computing, as well as high-performance data center applications. At the same time, HGX platform remains the top choice for AI computing and AI reasoning. There is still strong demand for these segments.

On AI Servers, we have R&D, digital manufacturing platforms, vertical integration, and strong customer relationships along with global deployment. From large CSPs to Tier 1 brand customers, we do business with the major AI server buyers in the market. Our current orders visibility are better than previously expected.

We are greatly investing our resources into products that are ramping up and undergoing mass production as well as new products to satisfy our customers' demands. As the mass production of GB200 gradually matures, based on our customers' orders, we expect AI server revenue to grow sequentially in 2025. I believe AI server revenue will reach over 50% of overall servers.

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Question 2: Thank you, Chairman Liu. On global strategy. Regarding tariffs under the Trump administration, what adjustments has Hon Hai made to its global expansion strategy? What plans do you have for the future for global development? Thank you.

Young Liu *Hon Hai Technology Group – Chairman*
The US is the first country Hon Hai invested in overseas, back in 1985. We only started our investment in China in 1988. In 1998, we entered the European and UK markets. Moreover, we then entered Mexico in 2004, India in 2006, and Vietnam in 2007. Thus far, we have 233 plants in over 24 countries globally, indicating our significant experience in global expansion.

In the past years, due to geopolitical issues and the Covid-19 pandemic, supply chain resilience is something that we have been continuing to strengthen. In the past three years, from 2022-2024, our capex exceeded NT$340 billion. Compared to the three years prior to that, from 2019-2021, our capex increased by close to 50%. This demonstrates that we have expanded production capacity in many regions. Currently, though tariffs may cause demand to be impacted, our accumulated preparations in the past years make me believe that our supply chain resilience is been stronger than under the first Trump administration.

In response to Trump's efforts to bring manufacturing back to the US, we will take our experience in global expansion to focus on US manufacturing capabilities. We are in close contact with customers and continue to adjust production flexibly based on their needs. When our plans are more mature, we will be sure to share it with everyone.

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Thank you, Chairman. This is the final question. If you have any questions, please press the raise hand button. After the next question, we will open the floor for questions from investors and media.

Question 3: The third question is for the CFO. On the gross margin this year, due to increased contribution from AI servers, I would like to know what the impact will be? Will AI servers allow the operating margin to increase? From a long-term perspective, what are your goals for gross margin and operating margin?

David Huang *Hon Hai Technology Group – CFO*
Due to the strong development of the AI industry, AI servers are a strong growth engine. At the same time, due to its high price and high profit product nature, we will eagerly attempt to capture any business opportunities. AI server and new product expansion will see revenue growth, and of course, impact the gross margin. In our previous investors' conferences, we have shared that based on different customer's transaction models, our

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margins will be impacted differently. Nevertheless, we will continue to closely monitor operating expenses.

Simultaneously, Hon Hai also continues to possess a large operational scale and a competitive advantage in vertical integration, which bodes positively for operating margin. We also understand that from investors' perspectives, they would like us to increase both profit and gross margins. However, due to AI's better-than-expected performance and EV's slower-than-expected progress, near-term gross margin performance has been impacted. That said, we expect long-term gross margin to improve due to optimizing product mix to focus on high gross margin products as well as vertical integration and new industry and product expansion.

Moreover, on our journey of maximizing profits, we also continue to improve Return on Equity (ROE). On ROE, we have reached over 9% in the past two years and use 12% as our longer-term goal.

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Thank you, CFO. Now, we will move to Q-and-A session for online investors as well as media. English questions are also welcome.

James Wu *Hon Hai Technology Group – Spokesperson*
The first question comes from Grace from UBS, please.

Grace Chen *UBS - Analyst*
Question: For GB200, from our initial understanding, different components have faced various issues. What is the progress on this? In your guidance, you forecast to see over 100% growth. Does this imply that you have broken through bottlenecks on these components? Are there any components that have seen stronger yields? If there are indeed yield improvements, does this mean that QoQ growth for 2Q25 for AI Servers will be higher than for 1Q25? Also, for GB300, will Hon Hai maintain its leadership position on the market? What are your core competencies here?

My second question is on capex. Will capex for 2025 be higher YoY? What will this be focused on? Wil tariffs increase costs or expense margins for 2025?

Young Liu *Hon Hai Technology Group – Chairman*

Thank you, Grace. As GB200 is a system level rack, it requires large integration during its production. Through an increase in production data, we see that the situation is that it is improving day by day. Its yield has now reached mass production levels. Our engineering team also continues to optimize relevant processes and expect production to go increasingly smoothly. We expect shipments to increase in the coming quarters.

Investors are often concerned about short-term order fluctuations. From our perspective in the industry, we continue to have strong and stable long-term relationships with our customers. As we mentioned earlier, we start developing the next generation or even next-next generation of products with our customers very early on. Thus, we are highly confident on GB200 visibilities. I have also mentioned today that the barriers to entry for AI Servers are high. From an AI player and a customer's perspective, an EMS player's R&D ability, vertical integration ability, product quality, and global footprint capabilities are all major factors for consideration. This is also why we are a good choice for long-term partnerships. I will ask David, our CFO, to answer the second question.

David Huang *Hon Hai Technology Group – CFO*

In the past few years, our capex has continued to increase. From 2022, capex was NT$97.9 billion, to NT$111.7 billion in 2023 and NT$136.3 billion in 2024. This is mainly due to production capacity expansion, investments in automation and new business opportunities. This year, we also see new opportunities on the market as well as new opportunities for collaborations and hence, we expect capex to grow by more than 20%. Our investments will include China, Taiwan, India, the US, and South East Asia. On facing tariffs and adjustments, we continue to consider our customers' needs first. As for relevant costs, we will discuss these with our customers to maintain our products' profitability.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Sharon from Morgan Stanley, please.

Sharon Shih *Morgan Stanley - Analyst*

Question: Hello, this is Sharon. I have two questions for you. First, my question is about the company's profit margins. I know you mentioned this, but could you be a bit more specific on this? You have also mentioned your revenue outlook for 2025, which demonstrates your confidence on orders. Could you elaborate on Cloud and Networking for 2025? If this segment could become a major segment for Hon Hai, despite the potential dip in gross margin, will there be economies of scale? Will there be a chance that the operating margin for 2025 is the same as 2024? Or, at least, will it be above 2.5%?

Secondly, at GTC next week, humanoid robot developments are also an important topic of discussion. You mentioned that on production for smart manufacturing plants, Hon Hai has started to utilize humanoid robots for some production plants. Could you share with us if humanoid robots have only been used at production facilities? What are your developments on humanoid robots? Will Hon Hai be more focused on key components for humanoid robots or will it be focused on the entire robot for a total solution including hardware, assembly and software?

James Wu *Hon Hai Technology Group – Spokesperson*
Okay, for the first question regarding the profitability, let's turn to our CFO.

David Huang *Hon Hai Technology Group – CFO*
Thank you. As we have mentioned in previous investors' conferences, we focused on profit maximization. Last year, the strong growth of AI servers has, indeed, impacted gross margin performance. However, it has also allowed us to create over 20 bps of leverage benefits. Hence, we actually saw a YoY increase in operating profit.

This year, a large portion of AI server sales will come from the GB series, with even higher ASP. Due to customer transaction model impacts, margin will also be affected. However, for 2025, we still expect a similar leverage benefit as we saw last year. This will still provide a positive boost to our operating profit margin.

Young Liu *Hon Hai Technology Group – Chairman*
On humanoid robots, Hon Hai group has always been optimistic on this segment. Five years ago, we started to view robotics as one of our major pillars of development. Hence, we have included it in our 3+3 plan.

Market research institutes have also reported that in the next 10 years, robotics will see rapid growth. This trend reflects smart manufacturing, service robots, and automation technology applications, bringing new business opportunities to the robotics segment. Apart from manufacturing applications, we will also be working on medical service applications for humanoid robots. Thus far, we have seen some progress and we hope that we can share this with everyone this year.

As for the humanoid robot industry, we are going for a diversified approach. On the entire robot, apart from key components including motors, micro motor, and other related components, we will also do humanoid robot assembly. Apart from the above, we will also provide software application platform services. We mentioned earlier that we will shift from our original manufacturing to platform services for our three major platforms including Smart Manufacturing, Smart City, Smart EV. So, for our platforms, we will not only provide hardware, but also relevant software through the platform. We will complete the tasks to 80-90% on our platform, and leave the remainder to our customers to complete.

James Wu *Hon Hai Technology Group – Spokesperson*
Next question comes from Pei Ying from TVBS, please.

Pei Ying Hsieh *TVBS News - Reporter*
Question: I have two questions. On DeepSeek's appearance on the market, the market has many questions. From the manufacturing perspective, will the appearance of DeepSeek impact high end AI Server demand from customers? The second question is that we have seen Foxconn release the first Traditional Chinese AI large language model: FoxBrain. Could you share the highlights on this?

Young Liu *Hon Hai Technology Group – Chairman*
I will first address the relationship between FoxBrain and DeepSeek. Actually, the technology underlying DeepSeek had been used by many in industry before, including using existing AI models to train new AI models, also called AI Distillation. Previously, on this method, many companies were worried about is legality so kept their endeavours under wraps. That said, DeepSeek was the first to openly admit it and, now, others are also admitting to doing it. FoxBrain employs a similar method of distillation. In addition, we strengthened our model on reasoning, Traditional Chinese, and mathematical models to enhance its performance in these areas. On our radar testing diagrams from performance testing, you can see our strong performance here. In the future, we will release FoxBrain as an open-source model to encourage everyone to develop Traditional Chinese applications on the model. Foxconn Group will also develop our three smart platforms based on this model. This is for FoxBrain.

As for DeepSeek's methods and its impact, its technical methods has enabled companies that could not participate in Large Language Models before to start participating in model development, including Foxconn. We used around 100 H100s to conduct continuous pretraining and post-training to reach our goals. In the past, this was not easy. If I remember correctly, our R&D team asked to use over 2,000 H100s, compared to the 100. This is a huge difference, and because of this, it has accelerated the adoption of inference and AI servers.

Because of this, AI server development used to involve large scale CSPs, but now, we are seeing medium-sized CSPs purchasing their own AI servers to train their own models. I believe this bodes well for Edge AI development and AI server demand because new models, including both AGI and ASI, would require high computing power. These new models, through DeepSeek's methods, can develop applications in Edge Computing in the future. Therefore, we believe that high-end AI server demand will continue to grow and would not be negatively impacted due to the appearance of open source models on the market.

James Wu *Hon Hai Technology Group – Spokesperson*
Next question comes from Avery from SET News, please.

Avery Liu *SET News - Reporter*
Question: Today, I would like to ask my question on behalf of your million shareholders. Could you give us some details on dividend payouts for this year? Is there the chance that dividend payout ratio will reach over 50%, or even reach a historical high?

David Huang *Hon Hai Technology Group – CFO*
Your wish has been granted, Avery. In 2019, we committed that our minimum dividend payout ratio would be 40%. Actually, since we announced that goal, we have consistently reached over 50% payout ratio for the past five years. After setting aside money for company development, we share our hard-earned results with our shareholders. Last year, our EPS was NT$11.01. Hence, today, when we discussed dividend payouts in the board meeting, we took the fact that our EPS had broken a record from 2008 and have decided to pay NT$5.8 cash dividend per share, compared to a cash dividend of NT$5.4 per share last year. This is a historical high, reaching 52.7% payout ratio, our sixth consecutive year reaching over 50% payout. This is also a main reason we pursue earnings maximization. With a higher EPS, we can distribute higher cash dividends to our investors.

James Wu *Hon Hai Technology Group – Spokesperson*
Next question comes from Gokul from JP Morgan, please.

Gokul Hariharan *JP Morgan - Analyst*
Question: Firstly, I just wanted to understand how you think about AI ASIC servers, because you definitely have good market share on GPU servers. How does Foxconn think about AI ASIC server market because it feels like more of the demand seems to be shifting to ASIC? What is your market share in this space and how do we see that changing?

Secondly, there is a lot of concerns on the market about CSP demand into the next year. Obviously, there is still some time to go, but what is the conversation you are having with customers like Microsoft and others on demand?

Young Liu *Hon Hai Technology Group – Chairman*
Let me try to answer your two questions. About ASIC AI servers, we work with a number of ASIC AI suppliers. I think because most of the training still happens on the Cloud side, most of the activities on AI demand is still for AI training. But with new models like DeepSeek, we are seeing that the demand on the Edge side is getting stronger. We think there will be more and more Edge AI demand. The ASIC AI server will be able to support it. When will this show large enough volume? I think maybe happen later this year. Once the Edge AI applications become more and more mature. That is what I think.

Your second question about CSP demand, I would say, from my experience or from what Foxconn has experienced, we have not seen CSP demand slow down. There is a rumor saying CSP demand will peak this year and then go down after this year. But we are not seeing that, and we think the demand is still pretty strong, at least for Foxconn. So, I would say, not until next year, we will not see the peak this year.

James Wu *Hon Hai Technology Group – Spokesperson*
Next question comes from Arthur from Fubon, please.

Arthur Liao *Fubon Securities - Analyst*
Question: I have three questions. Back to the servers, on the market, we have heard upstream players cutting CoWoS production. Is this because of obstacles for GB200 shipments or because Blackwell slowly shifting toward HGX? Will this impact Foxconn's performance for the first and second quarters of this year or is this something that Foxconn

does not believe to be a big issue? This is a GB200 question that many have discussed these few weeks. Also, for GB300, are there changes in thermal solutions and power?

Secondly, I would like to ask about Foxconn's strategy for Trump's tariffs. Could you elaborate on your plans on developments in the US in the coming year?

Thirdly, on iPhones, we see that the guidance is flat. For this customer, will you continue to deeply collaborate with them or adjust your investment based on the product lines?

Young Liu *Hon Hai Technology Group – Chairman*
I will try to answer these three questions. First, on GB200 production, as I mentioned earlier, it is a highly complex system that requires collection of a lot of data to help make manufacturing processing smoother. Through the last six months of collecting data, we see that its yield has reached standard levels. As there are many components involved, the impact and testing are quite complicated. From this perspective, we see the process continuing to be optimized. In the future, I do not believe shipment volume will be a large issue for Foxconn.

As for the production cut in CoWoS and what that implies, we are not too sure about this. You may need to check with NVIDA. As for GB300 questions, I believe our customers would be better equipped to answer this as they have a clearer idea.

On the tariffs, we know that the market has heard that we will produce in collaboration with our customers in several states in the US. These plans, I expect, will continue to increase in number. As these plans mature, we will be sure to let everyone know. The issue of tariffs is giving big headaches to CEOs of our customers and it is an issue of great concern. As for developments in the coming year, from what we see on the US government's stance on tariffs right now, I think it is highly difficult to forecast. Hence, all we can do is to prepare as much as possible.

As for iPhones, I think that Apple is a great company. I do not believe that we should lose confidence on the iPhone due to stronger market competition. We are strongly confident on Apple and believe that they will still have more to show regarding generative AI. Hence, we will not change our relationship and maintain a deep collaborative relationship with Apple.

James Wu *Hon Hai Technology Group – Spokesperson*
It is now 4.02pm. We will take our final question from Angela from KGI, please.

Angela Hsiang *KGI Securities - Analyst*
Question: I have two smaller questions. First, as Chairman Liu mentioned, AI SServers will reach 50% of the overall server revenue. Could you give us an update on this for 2024? Secondly, more on the financial side, you had previously mentioned that AI growth in the product mix may negatively impact our gross margin, but contribute positively to operating margin. I was wondering if this positive impact implies that it will be similar levels to the company's overall operating margin levels of 3%?

James Wu *Hon Hai Technology Group – Spokesperson*
I will answer the first question. In 2024, AI Servers accounted for around 40-42% of overall servers.

Young Liu *Hon Hai Technology Group – Chairman*
As for the impact on OPM, as our CFO mentioned earlier, there will be relevant leverage benefits, which implies it will be similar to last year's OPM.

James Wu *Hon Hai Technology Group – Spokesperson*
As the time is now 4:04 pm. I believe that many of you have received significant amounts of answers. Above is all of the content for our investor's conference this time. We will end our conference here. Thank you everyone, good bye.

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